

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Periodic Reporting  
(Proposals One through Five)

Docket No. RM2012-5

PUBLIC REPRESENTATIVE COMMENTS IN RESPONSE  
TO ORDER NO. 1388 CONCERNING RULEMAKING ON  
ANALYTICAL PRINCIPLES USED IN PERIODIC REPORTING  
(PROPOSALS ONE THROUGH FIVE)

July 31, 2012

The Public Representative hereby provides comments in response to Commission Order No. 1388.<sup>1</sup> In that Order, the Commission established the above referenced docket to receive comments from interested persons, including the undersigned Public Representative, on a Postal Service petition requesting that the Commission initiate a rulemaking proceeding to consider five proposals to change the approved analytical methods used in the Postal Service's periodic reports to the Commission.<sup>2</sup>

As described in the Postal Service's Petition, the proposals, labeled Proposals One through Five, would eliminate separate shape-based reporting of delivery costs for Standard Mail Carrier Route letters, flats, and parcels (Proposal One), calculate delivery scanning costs for all non-accountable mail (Proposal Two), update In-Office Cost System (IOCS) encirclement rules used to allocate costs to special services (Proposal 3), change IOCS activity and operation codes (Proposal Four), and introduce a new methodology for distributing costs of Vehicle Service Drivers (Proposal Five).

---

<sup>1</sup> PRC Order No. 1388, Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (herein Order No. 1388), June 29, 2012.

<sup>2</sup> Petition United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal One Through Five), April 6, 2011, (herein Petition).

## COMMENTS

Proposal One                      Elimination of Separate Delivery Costs for Carrier Route Letters, Flats, and Parcels

The Postal Service currently reports unit delivery costs separately for Standard Mail Carrier Route letters, flats and parcels.<sup>3</sup> As presented in Proposal One, the Postal Service proposes to cease the separate reporting of unit delivery costs by shape. If approved by the Commission, Proposal One would replace the separate shape-based reporting of unit costs with a single weighted average unit delivery cost for all Carrier Route mail. Petition at 3. The effect of Proposal One, if effective for FY 2011, would have resulted in average unit delivery cost for Carrier Route mail of 11.285 cents. *Id.*

The Postal Service's proposal addresses the anomalous unit delivery cost of Carrier Route letters, which is more than three times greater than the unit delivery cost of flats. Petition, Table, at 2. This relationship reveals that the unit delivery cost of Carrier Route letters is unreliable.

In support of Proposal One, the Postal Service simply states that combining letters and flats data, plus parcel data, "is appropriate . . . [g]iven that Carrier Route flats represent over 99 percent of Carrier Route volume." Petition at 3. However, the Postal Service's proposal differs from the options suggested by the Commission in its FY 2011 Annual Compliance Determination (ACD).<sup>4</sup> There, the Commission suggested that the Postal Service "eliminate the Carrier Route letter rate category or aggregate Carrier Route letter cost data with Carrier Route flat data."<sup>5</sup>

The Public Representative believes that either of these options is preferable to Proposal One. Eliminating the Carrier Route letter category or aggregating Carrier

---

<sup>3</sup> United States Postal Service FY 2011 Annual Compliance Report, Library Reference USPS-FY11-19, December 29, 2011.

<sup>4</sup> Annual Compliance Determination Report, Fiscal Year 2011, Docket No. ACR2011, March 28, 2012, (herein FY 2011 ACR).

<sup>5</sup> *Id.* at 121.

Route letter and flat data would preserve the “visibility” of the unit delivery cost for Carrier Route parcels. As indicated above, the Postal Service proposes to report a single weighted average unit delivery cost for all Carrier Route mail. However, the unit cost of Carrier Route parcels is not anomalous. Moreover, the Commission has not expressed any concern as to the reliability or accuracy of the unit cost of parcels. Similarly, the Postal Service does not question the reliability or accuracy of the unit cost of parcels. In short, the Postal Service has not justified eliminating the separate reporting of the unit delivery cost of parcels in order to address the anomalous unit delivery cost of letters vis-a-vis flats.

The Commission should approve a modified version of Proposal One so as to retain the separate reporting of unit delivery cost of Carrier Route parcels by either eliminating the Carrier Route letter rate category or aggregating Carrier Route letter data with Carrier Route flat data.

Proposal Two.

Calculation of City Carrier Scanning Costs for All Non-Accountable Delivery Scans

The Postal Service currently calculates the costs of scanning delivery barcodes by city carriers for Delivery Confirmation, non-accountable insurance items, and Express Mail with signature waiver using an established cost methodology. Pursuant to that methodology, such street scanning costs are calculated “by multiplying the unit scan time (6.23 seconds) by the number of scans” obtained from the City Carrier Cost System (CCCS) and the city carrier wage rate. Petition at 4. The resulting total scan cost is “removed from Cost Segment 7 accrued costs . . . and assigned to the responsible host product.” *Id.*

Proposal Two would initiate the calculation of street scanning costs using the established methodology for the USPS Tracking Barcode, introduced last year to better track parcels. *Id.* The proposal would also extend the methodology to all non-

accountable mail on which city carrier delivery scans are performed, including delivery scans on other non-accountable mail in the future. *Id.*

The primary effect of extending the established methodology as proposed is to increase parcel costs. Based upon FY 2011 costs and products, cost increases for Package Services parcels would range between 0.0 percent for Bound Printed Matter Flats and 3.9 percent for Single-Piece Parcel Post, or an average of 1.7 percent for Package Services as a whole. *Id.* Table, at 5. Costs for First-Class Mail and Standard Mail parcels would increase 3.2 and 1.9 percent, respectively. *Id.* Costs for virtually all other products and services would be unchanged or decrease in percentage terms. *Id.* Table, at 5-6. Total costs to the Postal Service would not change.

The Public Representative recommends Commission approval of Proposal Two. The Public Representative agrees with the Postal Service that the benefit of this proposal is to “ensure that the city carrier street costs of all such delivery scans are properly calculated and accounted for.” *Id.* at 4.

### Proposal Three.                      Changes in IOCS Encirclement Rules

Inbound Registered Mail is a special service within the market dominant International Ancillary Services product. In the FY 2011 Annual Compliance Determination (ACD), the Commission found that the costs of Inbound Registered Mail exceeded revenues by \$13.9 million.<sup>6</sup> For the International Ancillary Services product as a whole, costs exceeded revenues by \$6.1 million, caused solely by the loss arising from Inbound Registered Mail. *Id.*

During its review of the Postal Service’s FY 2011 Annual Compliance Report (ACR), the Commission inquired into the cause of the negative contribution of Inbound

---

<sup>6</sup> *Id.* at 146.

Registered Mail.<sup>7</sup> In response, the Postal Service cited changes in operating procedures and, as a result, the need to review “encirclement rules used in the IOCS.”<sup>8</sup> Those rules specify the assignment of the operation costs “of handling a mailpiece with an Extra Service to the Extra Service rather than to the host mailpiece.” Petition at 7. The Postal Service also stated that the IOCS encirclement rules “should be updated before concluding that inbound Registered [Mail] does not cover its costs.”<sup>9</sup>

As presented in Proposal Three, the Postal Service proposes that the costs of certain operations associated with the processing of Inbound Registered Mail no longer be encircled to Inbound Registered Mail.<sup>10</sup> This proposal reflects changes to the processing of Inbound Registered Mail, implemented June 1, 2009, which does not receive the extensive hand-to-hand processing of domestic Registered Mail.<sup>11</sup> Moreover, the Postal Service proposes to add encirclement to reflect changes in processing operations and window service activities, and correct inconsistencies, for the following special services: C.O.D., Certified, Insured, and Signature Confirmation. Petition at 7, 8.

Proposal Three would affect only the attributable costs of clerks and mailhandlers reported in Cost Segment 3 (Mail Processing). *Id.* at 9. If Proposal Three had been implemented during FY 2011, Table 3 shows that the changes in attributable costs would range between negative 38.3 percent for Inbound Registered Mail to an increase of 64.8 percent for C.O.D. *Id.*, Table 3, at 9. In addition to the special services previously identified, attributable cost changes would affect a number of products,

---

<sup>7</sup> Response of the United States Postal Service to Chairman’s Information Request No. 1, Question 35(b), Docket No. ACR2011, January 27, 2012.

<sup>8</sup> *Id.*

<sup>9</sup> Response of the United States Postal Service to Chairman’s Information Request No. 3, Question 4(b), Docket No. ACR2011, February 14, 2012.

<sup>10</sup> Petition, Table 1, at 7. In the Response of the United States Postal Service to Chairman’s Information Request No. 1, Question 3(a), the Postal Service stated that in addition to Inbound Registered Mail, “USPS mail is no longer encircled;”

<sup>11</sup> International Inbound Registered Mail Procedures, 74 Fed. Reg. 14,932 (Apr. 2, 2009).

including Inbound Single-Piece First-Class Mail International (Inbound LC/AO), First-Class Mail, Parcel Post, and Competitive products. *Id.* In response to Chairman's Information Request (CHIR) No. 1, the Postal Service made "some corrections" and revised Table 3, which shows that there would be no change to the total costs of the Postal Service.<sup>12</sup>

With respect to Inbound Registered Mail, the 38.3 percent decrease in attributable costs would have reduced the FY 2011 loss from \$13.9 million to \$8.4 (\$13.9 – (\$14.4 \* 0.383)) million. This reduction, in turn, would have reduced the loss for International Ancillary Services as a whole from \$6.1 million to \$0.6 (\$6.1 – (\$14.4 \* 0.383)) million, resulting in a revised cost coverage of 98.1 percent for FY 2011.

The Public Representative recommends Commission approval of Proposal Three.

#### Proposal Four.      Changes in IOCS Reporting Codes

Pursuant to Proposal Four, the Postal Service proposes to make the following four changes to IOCS activity and operation codes:

- (1) Eliminate activity codes that are no longer used for costing;
- (2) Combine the operation codes for Outgoing Primary Distribution and Outgoing Secondary Distribution into one code;
- (3) Add a code for Managed Mail Distribution; and
- (4) Add or revise codes to account for the recent transfers of Parcel Select Lightweight and First-Class Package Service to the competitive product list.

*Id.* at 10-12. The Postal Service asserts that these changes will not affect the costs of any products. *Id.* at 13.

---

<sup>12</sup> Response of the United States Postal Service to Chairman's Information Request No. 1, Question 3(b), July 27, 2012 (CHIR No. 1).

(1) Eliminate Certain Activity Codes. According to the Postal Service, the first set of changes would eliminate activity codes that distinguish non-automation from automation presort mail items in First-Class Mail and Standard Mail, and presort from single-piece items in Media Mail and Bound Printed Matter. *Id.* at 11. In addition, activity codes that identify letter-shaped mail for various Package Services products would be eliminated. *Id.* at 11-12. As shown in Table 1, most of the changes would eliminate the activity codes distinguishing non-automation from automation presort. *Id.*, Table 1, at 10-11.

The Postal Service states that these activity codes can be eliminated because they are not used for costing. *Id.* at 11. Unit cost estimates for the First-Class Mail and Standard Mail non-automation and automation presort mail categories are no longer developed through the Cost and Revenue Analysis (CRA) report. Rather, such cost estimates are developed through mail processing mailflow cost models for each category (*i.e.*, Presort, Auto MMACD, Auto AADC, Auto 3-Digit, and Auto 5-Digit). As a result, the Postal Service maintains these cost estimates do not rely on IOCS activity codes used to develop CRA costs. Response to CHIR No. 1, Question 4(a).

While the Postal Service is clear that data from the IOCS non-automation and automation presort activity codes are not used for developing cost estimates, the Postal Service is silent as to whether such IOCS data is used for special studies, or its future plans. Currently, data from the IOCS activity codes that distinguish between First-Class Mail and Standard Mail non-automation and automation presort are simply aggregated for reporting purposes. Moreover, combining these separate activities codes into one will likely permit the Postal Service to reduce the number IOCS tallies necessary to obtain a statistically reliable sample for the single code. Such a reduction in tallies, while reducing IOCS costs, will also prevent the future use of these separately reported costs for each category. Prior to deciding whether to approve the elimination of these separate activity codes, the Public Representative urges the Commission to obtain

additional information the Postal Service as to whether the separately reported are used for any special studies, or other purposes.

For Media Mail and Bound Printed Matter, the Postal Service states that the distinction between presort and single piece are not required for CRA reporting or used in studies for the ACR. *Id.* Nor are letter-shape activities codes warranted for Package Services products where letter-shape pieces do not occur. *Id.*

With respect to eliminating separate presort and single-piece activity codes for Media Mail and Bound Printed Matter, the Public Representative agrees that such codes are no longer necessary. The Public Representative also agrees that letter-shape activities codes for Package Service products can be eliminated. Such activity codes seem superfluous since Package Service products are not comprised of letter-shape items.

(2) Combine Outgoing Primary and Outgoing Secondary Distribution Codes; and, (3) Add Managed Mail Distribution Code. The second set of changes would eliminate the Outgoing Primary and Outgoing Secondary distribution operation codes and combine reporting into a single Outgoing Distribution code. The creation of a single Outgoing Distribution code for IOCS reporting would be accompanied by the addition of a new operation code for Managed Mail.

The Postal Service maintains that data from the separate Outgoing Primary and Outgoing Secondary distribution operations are not used in the CRA or the Postal Service's Annual Compliance Report. Petition at 12. With respect to the new Managed Mail code, the Postal Service states that IOCS data collectors will be asked to identify such schemes separately from other scheme categories—something that has proven difficult for data collectors to do given the absence of a Managed Mail operation code. Petition at 12.

Managed Mail processing of First-Class Mail occurs at the second of three processing facilities. At an originating processing facility, First-Class Mail is sorted in



the Outgoing Primary operation either to local (*i.e.*, overnight) ZIP Codes served by the facility, or a ZIP Codes outside the overnight delivery area. In the Outgoing Secondary operation, this two- and three-day mail is sorted to a range of 3-digit ZIP Codes that could include one or more states, as well as larger cities or other sub state areas. Such mail is then transported to Area Distribution Centers/Automated Area Distribution Centers (ADCs/AADCs). At the ADCs/AADCs, a Managed Mail scheme sorts the range of 3-digit ZIP Codes into smaller ZIP Code groups, which are then transported to incoming processing facilities. At the incoming processing facilities, these smaller 3-digit ZIP Code groups are sorted to 5-digit in the Incoming Primary operation. These 5-digit groups are then sorted into walk sequence on Delivery Bar Code sorters in the Incoming Secondary operation.

The addition of a Managed Mail Distribution code appears to be a more direct and accurate method of classifying Managed Mail schemes occurring at ADCs/AADCs. Consequently, the Public Representative believes this change should be adopted.

(4) Add or Revise Certain Codes for Competitive Products. The Postal Service's fourth set of changes account for the recent transfer of Parcel Select Lightweight and First-Class Package Service Postal Service to the competitive product list. The Postal Service states that transfer of these products "necessitate[s] new activity codes for Parcel Select Lightweight and revisions to the codes for First-Class Mail Parcels and Irregular Parcels and Pieces (IPPs)." Petition at 12.

The Public Representative agrees that the addition of new activity codes and the revision of existing codes is warranted so as to permit the collection and reporting of IOCS cost data for these recently transferred competitive products.

Proposal Five.      Changes to Methodology of Distributing Costs Incurred by Vehicle Service Drivers

The Postal Service proposes to replace the current method of distributing the attributable costs of Vehicle Service Drivers (VSD) reported in Cost Segment 8. The

current method relies on a distribution key to allocate VSD costs to products. That distribution key is derived from Transportation Cost System Intra-Sectional Center Facility (TRACS Intra-SCF) data, specifically, the estimated cubic-foot miles of mail sampled from intra-sectional center facility routes. As such, the distribution key represents a proxy for the direct measurement of the relative use of VSD transportation by products.

The Postal Service observes that use of this proxy to distribute VSD costs “was approved by the Commission in 2008 as an interim measure.”<sup>13</sup> The Postal Service notes that the Commission, while viewing the proxy as an improvement, found it flawed and urged the Postal to make a “good faith” effort to directly measure the relative use of VSD transportation. *Id.*

Proposal Five represents the Postal Service’s follow-on work to replace the current TRACS Intra-SCF distribution key with a new quarterly distribution key based on the new Transportation Cost System Highway Vehicle Service Drivers (TRACS-VSD) statistical subsystem. Petition at 14. The Postal Service reports that it has recently developed a statistical sampling frame and the ongoing TRACS-VSD subsystem, which is similar to four existing TRACS subsystems used to measure the four types of purchased highway transportation. *Id.* at 15. These developments will permit the Postal Service to obtain “reliable sample-based estimates of VSD activity.” *Id.*

In its Petition, the Postal Service presents a table that reports the change in unit attributable costs using the current and proposed methodologies. *Id.*, Table, at 16. In response CHIR No. 1, the Postal Service made two “minor revisions” to the sample-based distribution key described in the Petition.<sup>14</sup> These revisions caused adjustments to the reported unit costs presented in the table. For most products, the revised unit

---

<sup>13</sup> Petition at 14, *citing* PRC Order No. 115, Docket No. RM2008-2, October 10, 2008, at 38-39.

<sup>14</sup> Response of the United States Postal Service to Chairman’s Information Request No. 1, Question 10, July 23, 2012.

cost change is less than 1 cent, except for single-piece Parcel Post, Free Mail for the Blind, and International Mail, would increase by 5.4, 1.3 and 1.7 cents, respectively. Unit costs for Media/Library Mail would decrease by 2.8 cents. Overall, unit costs for total domestic market dominant mail would be unchanged, while such costs for competitive mail would decrease by 1 cent.

The Public Representative considers the new method of distributing VSD costs based on TRACS-VSD statistical subsystem to be a considerable improvement and recommends Commission approval of Proposal Five.

Respectfully submitted,

James F. Callow  
Public Representative